

Message Text

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45

ACTION SS-25

INFO OCT-01 ISO-00 /026 W

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R 251150Z JUL 75

FM AMEMBASSY COLOMBO

TO SECSTATE WASHDC 3113

C O N F I D E N T I A L COLOMBO 2320

EXDIS

EO 11652: XGDS-1

TAGS:

SUBJ: GSL REPORTEDLY MOVING TOWARD DEVALUATION

1. SEVERAL HIGHLY PLACED GSL SOURCES HAVE INFORMED US IN STRICT CONFIDENCE THIS WEEK THAT GSL IS MOVING IN DIRECTION OF DEVALUATION AS PART OF PACKAGE OF MEASURES DESIGNED TO OBTAIN IMF STANDBY AND ASSISTANCE FROM OIL FACILITY.

2. CENTRAL BANK GOVERNOR TENNEKOON TOLD AMB GSL IS LIKELY ESTABLISH SINGLE RATE OF EXCHANGE WHICH WILL PROBABLY BE CLOSE TO CURRENT FEEC RATE ALTHOUGH TERM "DEVALUATION" WILL BE AVOIDED IN FAVOR OF "UNIFICATION OF RATES." THIS PROSPECT CONFIRMED BY TREASURY SECRETARY JAYAWARDENE IN SEPARATE CONVERSATION WITH EMBASSY OFFICER. IN RETURN GSL HOPES OBTAIN FROM IMF TWO TRANCHES OF 24.5 MILLION SDR'S EACH AS STANDBY AND ABOUT 43 MILLION SDR'S FROM OIL FACILITY, ASSISTANCE WHICH CONSIDERED ESSENTIAL BECAUSE OF GSL'S CRITICAL FOREIGN EXCHANGE SITUATION.

3. COMMENT: ALTHOUGH GSL HAS LONG RESISTED IMF PRESSURE TO DEVALUE, SUCH STEP IS EASIER TO TAKE NOW THAN BEFORE. ONE OF REASONS FOR MAINTAINING OFFICIAL RATE OF EXCHANGE FAR BELOW REAL RATE (RS 7 RATHER THAN RS 19 TO US DOLLAR AT LAST
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WEEK'S COUNT) HAS BEEN TO DENY TO ESTATES ANY

PROFIT FROM LONDON TEA SALES. INFLATED OFFICIAL
RATE ACTED AS SUBSTANTIAL TAX, BECAUSE STERLING
COMPANIES RECEIVED IN RUPEES ONLY OFFICIAL RATE
FOR THEIR FOREIGN EXCHANGE EARNINGS. IF ESTATES
ARE NATIONALIZED (COLOMBO 2267), THERE IS LITTLE
REASON TO CONTINUE THIS SYSTEM. BEYOND
THIS, FREE MARKET RATE IS NOW CLIMBING SO RAPIDLY
THAT GAP MAKES EVEN FEEC RATE HIGHLY OVERVALUED.
VAN HOLLEN

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